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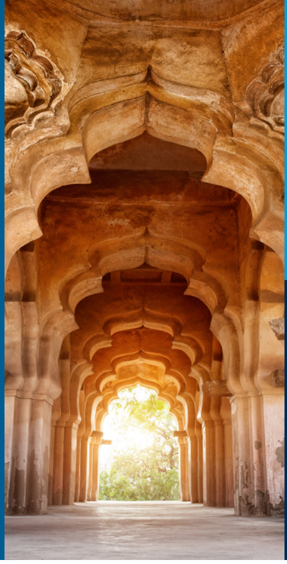


The India Opportunity

OPPORTUNITY OPTIMUM | GLOBAL OPPORTUNITY TEAM | January 2024

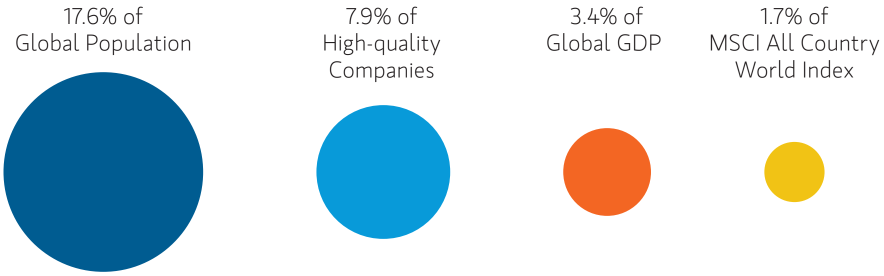
We believe India's growing population and young demographic, and its efforts to build digital, regulatory, financial and physical infrastructure over the last decade, will pave the way for **growth acceleration over the next decade**. This will have significant implications for India's share of the global economy and equity markets.

India is home to a disproportionate number of high-quality companies[1] yet remains underrepresented by equity indicies. Therefore, **we see a significant opportunity for bottom-up stock picking, by owning businesses with strong balance sheets, robust growth and improving profitability.**

Key highlights

- India is underrepresented by equity indices
- Infrastructure for growth acceleration was built over the last decade
- Broadening opportunity set for bottom-up stock picking in India

DISPLAY 1
India is under-represented



Source: Morgan Stanley Investment Management, Factset, IMF, MSCI, as of November 30, 2023. Note: 7.9% of high quality companies is calculated based on the following. Out of 7,891 global companies with above 1 billion market cap, there are 1,774 companies with above 15% return on invested capital (ROIC) and above 15% 3-year revenue growth compound annual growth rate (CAGR). Of those 1,774 high-quality companies, 140 are Indian companies.

[1] India is also home to a disproportionate number of high-quality companies (>15% 3 year revenue growth CAGR and >15% ROIC).

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Opportunity Optimum discusses how and where we are finding the best investments around the world.

India offers a broad opportunity set for long-term investors yet it is under represented by equity indices.

As an economy, India is likely to grow much faster than global growth, and despite quadrupling over the last two decades, India's weight in the global equity index is just 1.7%, trailing its current 3.4% share of global GDP. India is also home to a disproportionate number of high-quality companies (>15% 3 year revenue growth CAGR and >15% ROIC).

We believe India's growing population and young demographic, and its efforts to build digital, regulatory, financial and physical infrastructure over the last decade, will pave the way for growth acceleration over the next decade. This should drive India's nominal GDP growth, in U.S. Dollar (USD) terms at high single digits, taking its GDP from USD 3.5 trillion in 2022 to USD 8.1 trillion in 10 years according to Morgan Stanley Research.

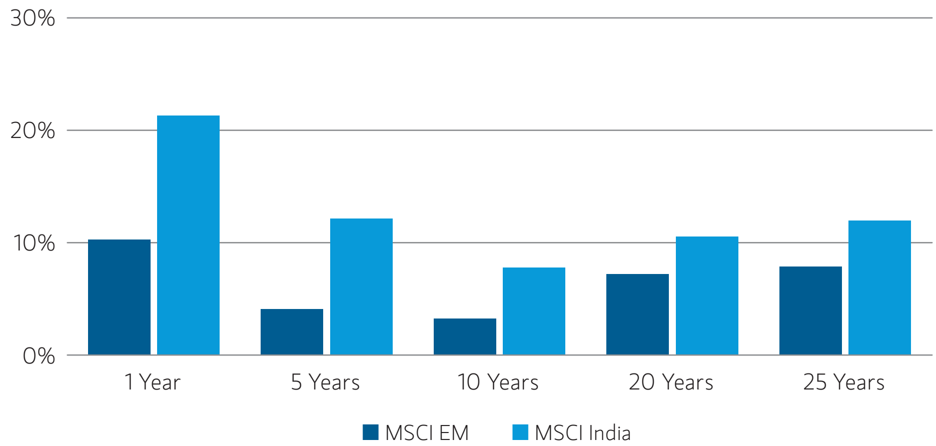
We have made multiple investments in India since the inception of our first strategy in 2006, across financials, consumer and industrials. As a team, we look for leading businesses with large addressable markets, opportunities to gain share and strong management teams we can co-invest with for the long term. We believe India offers an attractive hunting ground to find ideas that meet our criteria for long-term value creation. We expect the evolution of the Indian economy over the next decade will support our bottom-up ideas rather than act as headwinds, as we have seen in other emerging markets. There will be volatility in performance, but we believe that well run, high-quality businesses in India, purchased at a discount to intrinsic value, can outperform over the long run.

DISPLAY 2

India stands out on long term total return

Total Return CAGR, USD

Past performance is no guarantee of future results



Source: Morgan Stanley Investment Management, FactSet. As of date: 31 December 2023

In this note we discuss how we see the Indian economy evolving over the next decade, the building blocks that have been put in place to support this growth and the broad areas where we are finding opportunities for investment.

India spent the last decade creating infrastructure

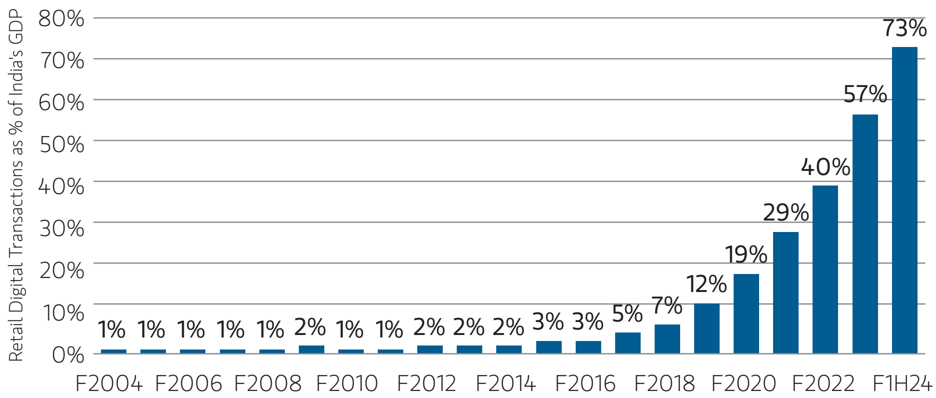
A decade back, India was struggling. Post-Global Financial Crisis, India grew quickly, but this was followed by a sharp slowdown. Bad loans in the banking system increased as corporates struggled to repay loans taken to build projects that proved to be unviable. This created capital issues in the banking system that lasted for almost a decade and led to a slowdown in investment. Cyclically, growth was also impacted by some of the structural reforms put in place by the government, including a uniform value-added tax, real estate laws regulating builders and demonetization.

India's young population is a tailwind for growth, but this must be enabled by proper policies, and, in our view, the reforms undertaken over the last few years have set up the infrastructure needed to sustain strong growth over the next decade or more. We categorize these changes in three broad infrastructure groups:

DIGITAL INFRASTRUCTURE: India has taken the path of setting up digital infrastructure as a public good, which can be used by private enterprises to deliver services to citizens more efficiently. This has enabled various services, from financial system access to government subsidies to COVID vaccines, being delivered to even the weakest sections of the country with maximum efficacy. The foundation of this infrastructure was a universal Biometric ID system, Aadhar (Hindi for "Foundation"), which was launched in 2009. Today, 1.3 billion Indians have an Aadhar ID. This is used for multiple services. For instance, in March 2023, Aadhar was used to authenticate 2.2 billion transactions, of which ~300 million were Know Your Customer (KYC) transactions. This lowered the cost of opening a bank account and enabled 500 million new accounts to

DISPLAY 3

Retail digital transactions have gone up Since UPI was launched in 2016, helping increase formalization of the economy



Source: National Payments Corporation of India (NPCI); Reserve Bank of India (RBI); Morgan Stanley Research. Forecasts are based on current market conditions, subject to change, and may not necessarily come to pass.

be opened in the last decade, easier and more targeted subsidies from government among multiple benefits.

A big driver for formalization in the economy has been the consumer real-time payment system UPI (Unified Payments Interface), which launched in 2016. UPI has made mobile payments seamless and enabled the transition from cash to digital payments. Increased willingness of consumers to pay through mobile has also extended to credit cards, where payments have grown at a 26% CAGR since 2016.

FINANCIAL INFRASTRUCTURE: A large portion of the population had no bank accounts until a decade ago. It was costly to open a bank account. There was no incentive for banks to open accounts for economically weaker parts of the population, leading to the exclusion of a large part of the population from the financial system. In 2014, the government announced banking for all to jump-start financial inclusion. Since then, ~500 million new bank accounts have opened. This was enabled by Aadhar, as the cost of KYC dropped, and now a vast majority of the population has access to banking. This, coupled with the launch of UPI, has driven rapid digital adoption for financial services.

POLICY AND REGULATORY INFRASTRUCTURE: Multiple steps have been taken over the last decade to make policies more conducive to investments. A key move was the implementation of the Unified Goods and Services Tax (GST) across India. The marginal corporate tax rate was cut to 25%, from 35%, in 2019. The monetary policy target was moved to inflation targeting with a 4% target (+/- 2% band) in 2016—since then rates/currency have become less sensitive to moves by the U.S. Federal Reserve. The implementation of insolvency to the bankruptcy code, coupled with proper recapitalization of state-owned banks, has enabled the system to recognize bad loans.

India established a new law governing real estate to ensure property developers met their responsibilities in their contracts with consumers. This cleaned up the developer segment, though property was a drag on the economy for a few years. But now, with inventory levels at historic lows and the remaining developers having strong balance sheets, real estate is likely to contribute to an acceleration in economic growth.

As an emerging market, there is a risk of volatility in policy moves, but these changes have made it easier for businesses to plan for the longer term and invest.

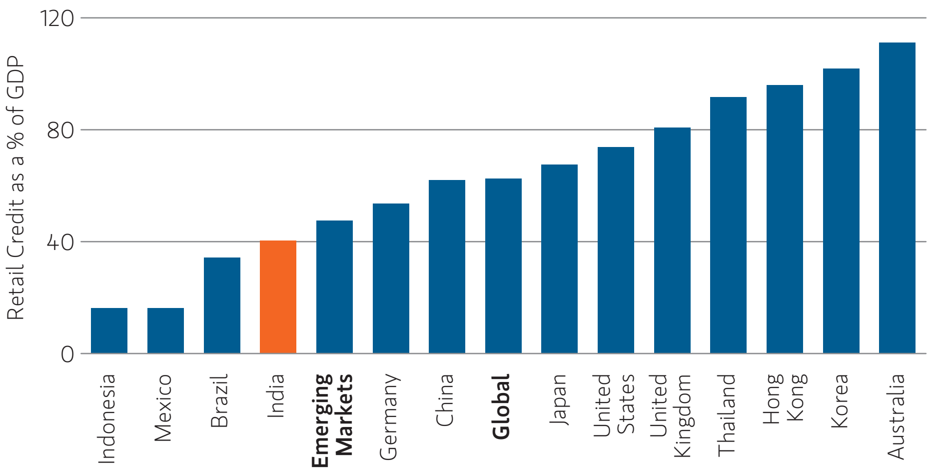
Growth should accelerate compared to the last 10 years, resulting in a broader set of investment opportunities

India's Prime Minister, Narendra Modi, says the next decade could be "India's moment." This could be true as the measures taken by the country over the last decade start contributing to more efficient production of goods and services. Morgan Stanley research expects GDP per capita to increase from USD 2,400 in 2022 to above USD 3,600 in 10 years. Investors have compared India to China at similar stages of growth trajectory, but the underlying markets, economic infrastructures and growth drivers for the two countries are different. We believe the relevant economy to compare India with could be the United States in the 1980s—given the regulatory backdrop, consumption as a key economic driver and large private ownership of businesses.

The size of India's economy is similar to where U.S. was at the beginning of 1980. In the 80s, U.S. nominal GDP expanded at ~7.6% CAGR and personal consumption expenditure (PCE) grew at ~8.1%, with some of the sub-segments even growing by more than 10% CAGR. This drove the S&P 500 to grow 12.6% CAGR between 1980 and 1990. India is now at a similar stage, with similar GDP growth potential over the next decade.

DISPLAY 4

Retail credit penetration for India can increase over next decade



Source: BIS Statistics Explorer, Morgan Stanley Research. As of Date: June 30, 2023.

Another factor that enhances Indian equities attractiveness over the long term is increased savings from households in equities. Historically, the Indian macroeconomy and its markets were both dependent on global liquidity, with the largest incremental investor in the markets being foreign investors. However, domestic mutual funds have become larger and provide a more stable and sustainable investor base. Domestic equity assets under management (AUM) in India is around USD 350 billion, up 10x since 2014—their average ownership in top 75 companies in India has increased from 3.5% in 2014 to over 10% now, as per Morgan Stanley Research. There may also be stickiness in this domestic flow into equities, with Systematic Investment Plans (SIP)—plans for individual investors to save a small amount in equity funds every month—now annualizing at close to USD 25 billion a year.

Broadening opportunity set in India

A large proportion of Indian companies are managed with a focus on long-term shareholder returns. This is helped by the fact that founders, called "promoters" in India, own fairly large stakes in listed companies. Promoter ownership in the top 70 Indian companies was 45% in September 2023, as per Morgan Stanley Research. A large number of businesses are focused on efficient use of capital, given the high cost of capital in the country, and this, coupled with the strong economic backdrop, has driven good market returns.

FINANCIAL BUSINESSES OFFER AN ATTRACTIVE WAY TO INVEST IN THE STRONG ECONOMIC GROWTH

Retail credit penetration in India has increased over last few years but remains low at 40% of GDP, compared to the global average. This will likely increase over the next decade as consumption behavior changes and digitization helps with efficient credit delivery. There will be cycles, but over the next decade, we expect retail lending and Small and Medium Enterprise (SME) in all forms to grow at a CAGR in the mid-teens, driving strong revenue growth for the system.

For more than 20 years a structural theme for Indian banks has been the transition of market share away from state-owned banks to private lenders. Given the importance of technology in terms of offering new services, we believe it will be difficult for state banks to stem the continued market share loss to private banks. This should help better-run banks grow revenues in the mid to high teens for multiple years. As banks gain scale, operating leverage will be meaningful. The combination of a large market, significant market share opportunity, operating leverage, attractive valuations and governance is tough to find globally.

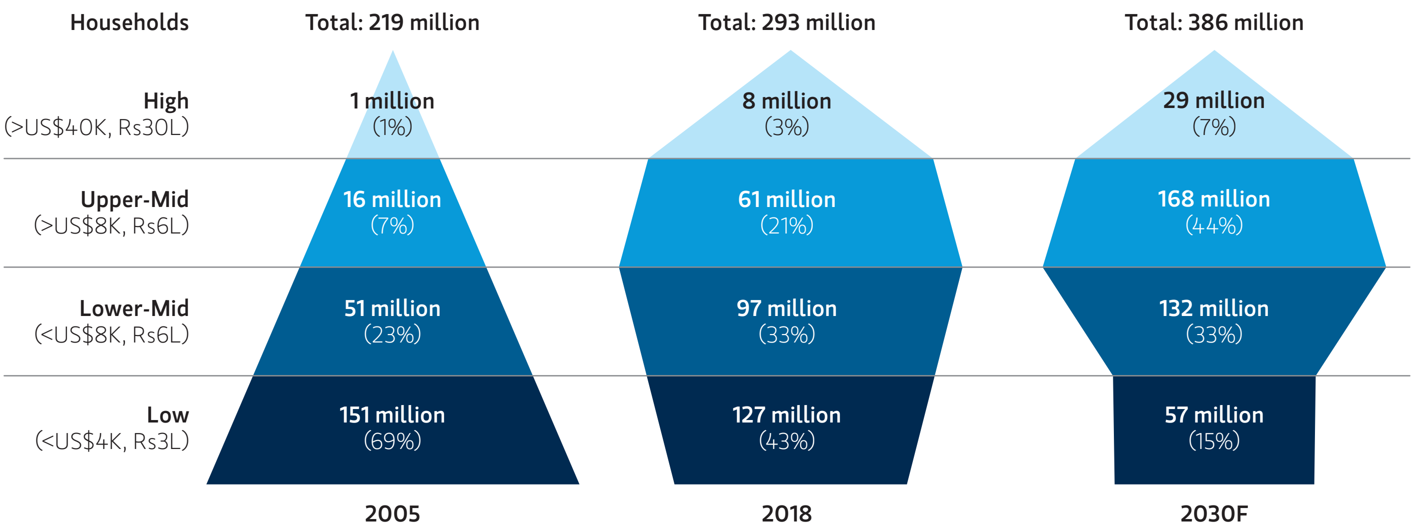
INCREASING ABILITY TO SPEND WILL HELP DRIVE PREMIUMIZATION ACROSS SECTORS

Strong growth, a young population and urbanization should continue to drive consumption growth in India. The population will also get richer, with the proportion of households earning over USD 8,000 a year likely increasing from ~25% in 2021 to over 50% in 2031. Historically, a large part of the consumer basket in India has been concentrated in daily necessities, but rising disposable income will change consumption behavior to luxury, travel, out-of-home dining, health care, beauty and entertainment, among other things. We believe there are well run businesses in these segments, which will compound in the long run:

1. **LUXURY:** There are growing signs of Indian consumers spending on luxury products. Apple opened its first retail stores in India in 2023 and its revenues in the country were estimated at USD 6 bn in FY23, and Morgan Stanley research expects this to increase to USD 40 bn in a decade. This is permeating other segments, where consumers

DISPLAY 5

India's Household Income Distribution shows middle class will dominate the economy by 2030e



e=estimated

Source: World Economic Forum, Bain, Macquarie Research, Future of Consumption in Fast-Growth Consumer Markets: INDIA, January 2019. Forecasts/estimates are based on current market conditions and subject to change, and may not necessarily come to pass.

are premiumizing their purchases. A key beneficiary of this trend is likely to be the jewelry sector, given the importance of gold for Indian households, with India being the second-largest importer of gold. The sector is dominated by unorganized players, but market share has been shifting to organized players, a trend accelerated by the government's digitization and taxation moves. As Indians get richer, they're likely to consume diamond jewelry, which would expand margins for retailers.

2. **TRAVEL:** More Indians are travelling within and outside the country. The investment in infrastructure, from ~70 cities with airports a decade back to likely more than 200 by 2025, makes it easier for people to travel within the country. This will give rise to multiple businesses, from online travel agencies to hotels. For instance, current hotel infrastructure is limited in India. In 2022, India had 160,000 branded rooms, compared to 4.7 million in China, implying significant room for growth. The large hotel chains are focused on profitability, adopting asset-light strategies, driving up profitability and becoming less exposed to cyclical downturns.

3. **FOOD DELIVERY:** Food consumption accounted for a quarter of India's GDP in 2019, dominated by home-cooked food, at 90% of consumption. Restaurant and food delivery is underpenetrated, with only 10% market share of the total food market. We expect the industry to grow steadily, driven by socioeconomic factors including rising urbanization, nuclearization, more working women and higher disposable incomes, and digitalization will further accelerate the adoption.

4. **HEALTH CARE:** India's health care industry has grown at 12-14% CAGR over the past five years, but it is still underdeveloped compared to the global market. Health care expenditure in 2022 was around 2% of GDP vs. the U.S. at 18%, China at 6%, the United Kingdom at 11% and Brazil at 13%. Aside from traditional hospital and pharmacy services, digital health can be an interesting area given the high smartphone penetration rate, 75% of the population living outside urban centers and digital health care adoption being boosted by the pandemic.

Indian markets have delivered strong returns over the last two decades and many investors, even in the emerging markets, have missed out. We believe the backdrop of economic growth acceleration and more prosperous households, will likely provide well-run businesses the opportunity to gain share and improve efficiencies. This will provide numerous attractive Indian businesses to invest in across our team's strategies. May all your investing be filled with opportunity.

Risk Considerations

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market value of securities owned by the portfolio will decline. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this strategy. Please be aware that this strategy may be subject to certain additional risks. Changes in the worldwide economy, consumer spending, competition, demographics and consumer preferences, government regulation and economic conditions may adversely affect global franchise companies and may negatively impact the strategy to a greater extent than if the strategy's assets were invested in a wider variety of companies. In general, **equity securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, and market risks. **Asia market** entails liquidity risk due to the small markets and low trading volume in many countries. In addition, companies in the region tend to be volatile and there is a significant possibility of loss. Furthermore, because the strategy concentrates in a single region of the world, performance may be more volatile than a global strategy. **Stocks of small- and mid-capitalisation companies** carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. The risks of investing in **emerging market countries** are greater than risks associated with investments in foreign developed markets. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). Non-diversified portfolios often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. In pursuing the Portfolio's investment objective, the Adviser has considerable leeway in deciding which investments to buy, hold or sell on a day-to-day basis, and which trading strategies to use. The success or failure of such decisions will affect performance.

DEFINITIONS

Compound Annual Growth Rate (CAGR) is the year-over-year growth rate of an investment over a specified period.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. It includes all private and public consumption, government outlays, investments and net exports.

Personal Consumption Expenditures (PCE) is a measure of price changes in consumer goods and services. Personal consumption expenditures consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, non-durables and services. It is essentially a measure of goods and services targeted toward individuals and consumed by individuals.

Return On Invested Capital (ROIC) represents the rate of return a company makes on the cash it invests in its business.

INDEX DEFINITIONS

The **S&P 100 Index**, a sub-set of the S&P 500, measures the performance of large cap companies in the United States. The Index comprises 100 major, blue chip companies across multiple industry groups. Individual stock options are listed for each index constituent.

The **MSCI All Country World Index (ACWI)** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

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A separately managed account may not be appropriate for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required.

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